CHAPTER 1

The Income Generation

If you do a Google[1] search for the word "income," it will generate 974 million results in about 0.62 seconds. And yet, for all the information about income out there, most people still have no idea what it means or how to get it.

I'm talking, of course, about a certain kind of income. Not the kind you receive, as Merriam Webster defines it, in exchange for some form of labor or capital. I'm talking about *retirement* income, the sort of money that comes in the door with little to no "work" on your part, since the whole idea of retirement is to stop working, or at least be able to have the option if you wish.

Investing for income is still a relatively niche field in the financial industry. When you consider the vast number of brokers, financial advisors, and investment firms that specialize in stocks and capital appreciation, and the far fewer who specialize in income, it's like holding up a penny against a dollar bill.

As one of the few financial advisors who have spent the last 20 years focusing on the world of bonds and other income-producing investments, I know why that is, but it still troubles me. At the end of the day, investing for income can be a more conservative way to get a return on your investment. Whether you're investing for capital growth or income, it shouldn't matter as long as YOU are receiving the income you need from your investments. Given the sheer number of folks entering or approaching retirement age today, and the sheer amount of money still allocated to stocks and other risk-on investments, we're standing at the edge of a precipice. If the market decides to take another dive, and I'll explain later on in this book why that's likely, there are millions of Americans who are at or near retirement age who will simply never recover. It won't be like the last two crashes when our generation, the Baby Boomer generation, still had plenty of strong earnings years left in their 40s and 50s to make up for those horrible drops. This time, time is simply not on their side. And with too much of their investment dollars allocated to stocks, it's like playing with fire. Eventually, you're going to get burned.

Unfortunately, most folks who are at or near retirement age haven't received the proper education, nor have the right resources at their disposal, to invest their dollars the right way. In the world of zero percent interest rates, they haven't been told or shown how to invest their money in the abundance of safer, risk-averse, income-producing investments available to them. That's why I've set up a national initiative, The Retirement Income Store, to make these sorts of investments available to anyone who wants them. Because the fact of the matter is, millions of Americans need these types of investments available to them since they're safer and they have less exposure to the ebbs and flows of the stock market. But sadly, the average financial advisor has no idea where to look or how to find them.

MORE INCOME, LESS RISK

I've watched the world take some pretty crazy turns during my career as a financial advisor. From the financial mania of the 1990s to the two meltdowns[2] in the 2000s, I've seen peaks of maximum greed and bottoms of peak fear. What troubles me the most as an advisor with thousands of clients I've served over the years is that there's still a great deal of confusion about how people who are at or near retirement need to approach allocating their life savings.

On some level, I think most people understand they're supposed to de-risk as they age. Does that mean switching to a 60-40 bond/stock portfolio where the majority, 60 percent, is in bonds and other income-producing investments, with the rest is still in stocks? Does it mean settling for low-yielding Treasury bonds that pay 2, maybe 3 percent? Most people who are at or near retirement, the types of people who need to be making these sorts of decisions, have no idea. As I'll discuss later on in this book, most advisors don't either.

Most people who are approaching retirement today were brought up in the glorious days of the 1980s and 1990s bull market when the stock market grew more than 10 times its size. The Dow soared from 776 in 1982 to 11,772 at its peak in the year 2000. At that time, Baby Boomers, or what I like to call "The Income Generation" who were born during the years between 1946 and 1964, were between the ages of 36 and 54. Some were approaching retirement age, but most were still firmly in their earnings years where retirement was still a long ways off. Even the oldest members of the Income Generation still had 11 years before they started retiring at age 65. There was time to recover.

So while a 50 percent market crash between 2000 and 2003 hurt badly, it wasn't the end of the world. But then the unthinkable happened. The market recovered into 2007, only to crash by another 58 percent into 2009.

I suppose I don't have to remind you how painful this was, but most people whose careers began in that glorious bull market of the '80s and '90s had no idea this sort of thing was even possible. The financial industry as a whole had come to believe that average annual returns of 15 percent were the new norm. And yet, after nearly 20 years of gargantuan growth, it wasn't until the year 2013 that the stock market finally achieved a new high.

Chart A

That's 13 long years of zero-net growth.

By this point, the "young" members of the Income Generation[3] were now between the ages of 49 and 67. Many were now entering retirement age while the rest were approaching it. Today, that range is 55 to 73.

We're now firmly in retirement territory.

Only this time, it will be much, much more difficult to recover from another 50 or 60 percent crash if it hits.

Fortunately, there's a better way. You can reallocate your investment dollars to the world of bonds and other bond-like investments to continue generating a steady income stream. The only difference is, you're investing for income, not growth. I'll explain the difference a bit later.

YOU CAN'T TIME THE MARKET, BUT . . .

There are lots of people out there who like to say it's impossible to time the market, which is really just an idea Wall Street likes to sell to convince you to constantly leave your money in stocks. If you're constantly pulling your money in and out of the market, you might miss the bad years, but you might miss the good years, too. That's why the conventional wisdom that you can't time the market is true, but only to a point.

I made a major switch in my career back in 1999: I switched from a stock-focused model to an income-focused one. I knew that average annual returns of 15 percent weren't sustainable, so I pulled most of my clients' money out of the market near the top. To be sure, I was met with a little resistance, but as the market started to crash in 2000, my clients quickly realized I was onto something.

A similar thing happened in October 2007, when I warned my clients in our monthly newsletter that another crash was likely, and that this time the Federal Reserve[4] would likely try new, untested tactics to stop the market from crashing to an absolute low. While I didn't know it at the time, the market quite literally peaked that month, and sure enough, quantitative easing and zero percent interest rates became the theme over the next decade.

With that kind of track record, some might call me a visionary, even psychic. I'm not. What I am, fundamentally, is a math guy. In fact, mathematics was my major in college. I told my guidance counselor that I wanted whatever field of study where I'd never have to write a paper. Funny now that I'm writing my third book!

But I am also a student of history. From my study of over 200 years of stock market cycles, I understand that the possibility of a third and fatal crash is not only possible, but likely. And you don't need to be a math guy to understand that Baby Boomers aged 55 to 73 can't afford another crash if their life savings is tied up in the stock market.

I hate talking about it, because I'm right there with you, and aging is a scary thing. The more we age, the less time we have. It affects our minds and our bodies, but also our finances.

Unfortunately, as we've learned all too well this century, the market can crash at any moment when the majority of folks least expect it, robbing us of half our money and, even worse, robbing our time. The older we get, the less time we have to recover from a market crash if we still want to retire.

If you're already retired, and you have your money exposed to the whims of the stock market, you're even more at risk.

Unfortunately, this is the situation that most of today's retirees find themselves in and it's just one of many hurdles they face on their path to enjoying a comfortable retirement.

That's why I have a different name for our generation. I don't call us the Baby Boomers. I call us "The Income Generation." Because we need a paradigm shift so we can start thinking about this situation differently.

We don't need stocks. We don't need risk. We need income.

THE UNTOLD TRUTH ABOUT RETIREMENT

In 1941, *LIFE* magazine[5] was the first to note the emergence of a growing "baby boom," as older couples who might otherwise have had children during the Great Depression at long last felt financially prepared to make the plunge into child-rearing.

However, we didn't define our generation until nearly a quarter century later, when, in 1963, newspapers began warning of a tidal wave of college enrollment as the first "Baby Boomers" were reaching college admissions age.

It's time we start thinking about our generation a bit differently.

We're way past college and many of us are winding down our careers. That's why I have a different name for our generation due to the financial challenges we face as this massive wave of 76 million people marches deeper and deeper into its retirement years.

We are "The Income Generation" for one simple reason—our generation needs retirement income, because it's a safer, more consistent way to get investment return. Unfortunately, most of our generation isn't getting it yet.

It's not hard to understand why this is the case. The idea of retirement is a relatively new one. It's not that people only recently decided they didn't want to work all their lives. It's that people are just living longer.

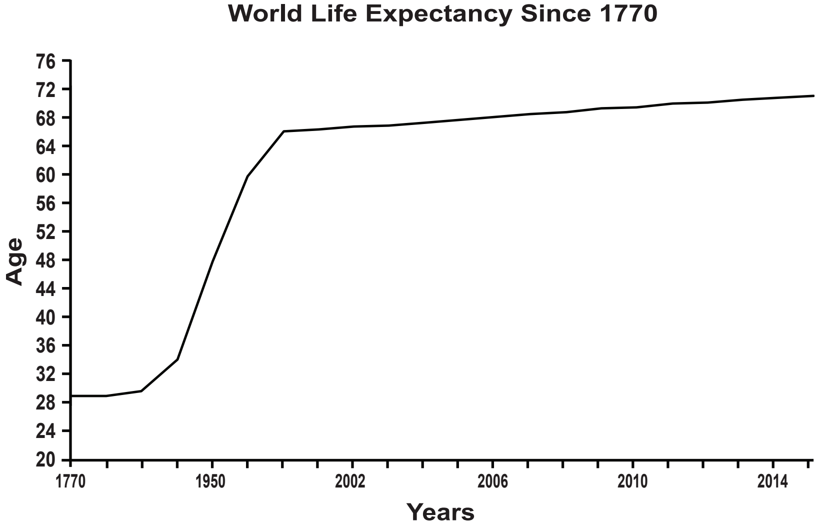

Chart B

In the Middle Ages, people were lucky to reach the age of 40. After the Industrial Revolution,[6] human life spans took off. And over the past century, lifes pans have essentially doubled.

The idea of retirement, while it dates back to the late 18th century, didn't start popping up until the late 19th and early 20th centuries, or just over 100 years ago.

Anytime you hear the phrase "there are only two kinds of people in the world," it's usually the start of a bad joke. However, for thousands of years, that truly was the case. Prior to the mid-19th century, we had the haves and the have-nots. There was no middle class to speak of. There was no one who needed to "retire." The idea hadn't been invented yet!

That all changed with the Industrial Revolution. With the expansion of industry and our economy, we began to see the birth of a third kind—the middle class, which has come to define all the hallmarks of the modern era, namely democracy, innovation, and capitalism.

It's important to put these sorts of things into perspective because they are a big reason why we're facing the issues we are today. It hasn't been that long in the course of human history that we've had extended life spans, a middle class, and all these other trademarks of modernity that have made the idea of retirement not only necessary, but possible. So, it should be no surprise that, as a society, we're still figuring out what retirement really means, and, more importantly, how one should go about it.

Here, in short, is why I'm writing this book: Members of the "Income Generation" need income because it's a safer way of getting return. They need assurance that they won't lose their life savings should another market crash start to unfold, and they need a consistent stream of income coming in every year so they can retire without having to withdraw from their life savings or having to go back to work.

Until now, there have been very limited avenues for members of the Income Generation to get this much-needed income. Most financial advisors are still stuck in the '80s and '90s mindset where stocks were, and to them still are, the only game in town. More importantly, investing for income requires a kind of experience that most advisors simply don't have. It's not as simple as investing in Treasury bonds or buying a CD. It's a matter of wading into the pool of corporate bonds, preferred stock, and other income-generating investments that most advisors don't specialize in.

WHY A RETIREMENT INCOME "STORE"?

So, why am I calling it a "Retirement Income Store"? Because I believe investing for income should be as easy as walking into a department store, buying what you need, and calling it a day.

Department stores, after all, are one of the greatest symbols of the middle class and the consumer economy.

When Macy's[7] opened its first department store in New York's shopping district in 1858, it was especially clear that we had sailed into uncharted waters. The middle class had taken control, and their shopping needs demanded change. For the first time in history, people had a one-stop shop that satisfied all their needs: clothes, furniture, bedding, appliances, and on and on. You name it, Macy's and other department stores such as Hudson's and Marshall Field's[8] provided it. It was the clearest example of the driving force of the middle class. No longer did the elite determine the course of the economy behind closed doors, but society was now catering to the needs of the much larger middle, and nowhere was that more evident than in the department store.

Today, department stores aren't what they used to be, thanks to discount retailers and, more recently, to the e-commerce boom via online retail giants such as Amazon. But there's no discounting the fact that the department store has been a staple of American life for every generation of the last 150 years. And I think there's some beauty to the idea that you can go to one place and find everything you need.

That's exactly what today's Income Generation needs—not for consumer goods, but for income.

YOUR ONE-STOP, SHOP

My career began with the idea of a "one-stop shop," a "financial" department store, if you will.

I started out at a small, independent financial firm in Hartford, Connecticut, in 1987 that sought to meet every need of a person's financial life in our small town. Our primary focus was life insurance, but as the firm expanded, we branched out into other areas. Eventually we hired a CFA who took control of our clients' investments. We brought on an estate planning attorney to handle our clients' estates. We even took on an accountant to help our clients out with their finances and taxes.

This isn't a revolutionary idea today, but 30 years ago, it was ahead of its time. Back then, everything was separate. You had brokers in one office, insurance agents in another down the street, and accountants and tax specialists somewhere else. What my firm did is take all of those separate branches and put them together, a one-stop shop that local citizens could come to, in order to meet all of their financial needs.

I didn't think about it back then, but that one-stop shop over 30 years ago really set the tone for the rest of my career and a mission that I hope will shape the financial life of every American for the better.

Today, we need a different approach when it comes to investing. The traditional "stock market model" no longer works. It's been broken for the better part of the last 20 years, ever since the tech bust that wiped out half the market cap of the U.S. stock market. And yet the majority of the American investor population is still stuck in the same mindset of the 1980s and 1990s when it seemed as if stocks could only go higher.

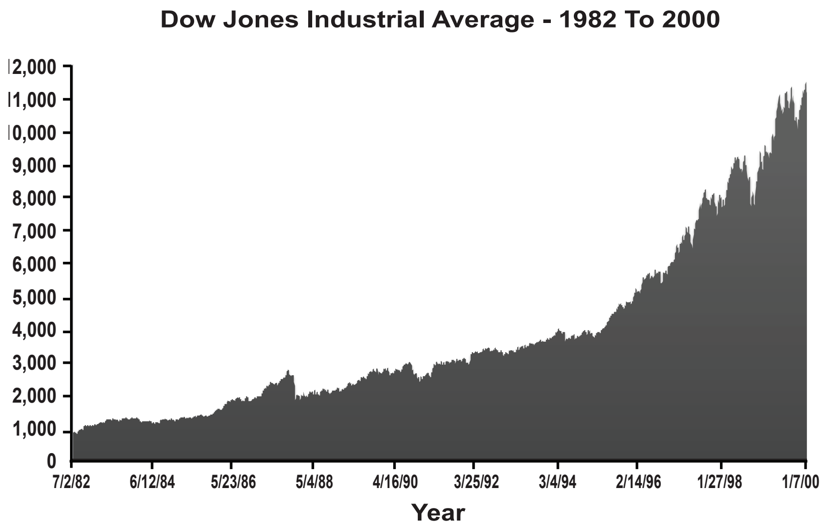

Chart C

Stocks truly were the only game in town back then, or at least the only game that mattered. The Dow closed July 2, 1982, at 797. By January 7, 2000, it had reached 11,522, growing 14 times its size, a gain of 1,346 percent. After that kind of financial mania, it's no wonder why folks look back to the "good ol' days," wishing for annual rates of return of 15 percent, double the market's long-term average.

But I don't plan to just write another hackneyed financial planning book that tells you how the old way of investing stinks and why investors need to better reposition themselves for retirement. I'm actually doing something about it.

For years I have been working to establish a national network of financial advisors that can help the more than 76 million Baby Boomers face the challenges of investing in this new era of heightened volatility and risks in the market, what I call The Age of Economic Uncertainty.

Fact is, of the more than 200,000 financial advisors at work in the United States, the vast majority of them are not equipped with the proper tools, knowledge, and resources to guide their clients to financial security in this era of increased uncertainty. Most of them were brought up in the '80s and '90s, the longest secular bull market on record, when stocks were all you needed to get rich. They were not trained to understand the challenges that investors and retirees face when stocks *do not* go up for many years. Those challenges only get harder the closer you get to retirement age. So, for many years, I've been working hard to spread this message and bring more people into the fold.

But, in the last couple of years, I've had to face a harsh reality.

I realized that I could never hope to take on the financial establishment, and the years of faulty thinking that lies therein, without taking my mission public and building it out on a national scale.

That's why I launched "The Retirement Income Store,"[9] a one-stop shop that any American can access to quickly reposition themselves for retirement.

To my knowledge, no one has assumed the mantle to carry this message to the American people, at least not on this large a scale. The idea of investing for "income" has grown in popularity over the last several years, as more and more investors have said "phooey" to the market's schizophrenic whipsaws. It is still very much a niche approach to investing. The old stock market model still prevails, and unless retirees or near-retirees reposition themselves soon, before another catastrophic downturn wipes them out for good, they may never be able to enjoy the retirement they've worked their entire lives to deserve.

That's why I've decided to take my message directly to the American people themselves, to you. If financial advisors won't make the leap on their own, my hope is that enough people will demand a change that financial advisors will have no choice but to create a sustainable investment portfolio for their clients.

THE DEFINITION OF INSANITY

I believe Albert Einstein[10] is quoted as saying "the definition of insanity is doing the same thing over and over again and expecting different results." That standard approach to investing, the stock market model, worked for most of the 20-year period spanning the 1980s and 1990s. But it's been the complete opposite during the last 20 years of the 2000s and 2010s. Investors have been hit by not one, but two major 50 percent drops, and while the market seems to climb ever higher in the face of economic uncertainty, we are still haunted by the ghosts of 2000 and 2008.

Yet the vast majority of the American investing population is still stuck in the same mindset that hasn't worked for the last 20 years, simply because it worked in the 20 years before that.

It isn't their fault. Fact of the matter is, financial advisors were never taught how to invest their clients' money during long-term secular bear markets, and they're so beholden to Wall Street's interests that they have little choice in the matter. For them, it's always a matter of what pays the mortgage and what puts food on the family table. I'm sure we can all relate.

However, it doesn't change the fact that the old way of doing things no longer works.

The more you age, the more difficult it gets to financially recover from another 50 percent drop that wipes out half your savings. If you're at or near retirement age, the question no longer becomes how much you need "saved up" in order to retire; it is how much money you can generate from your savings without having to risk your money in the stock market.

In other words, how much *income* do you need?

I understand this probably isn't the first time you've heard this, but how many times have you heard this without someone offering a clear, written-out solution?

There hasn't been a national initiative in place to help protect the countless men and women who are at or near retirement age today that will, most likely, be wiped out if the market takes another nosedive. The way you do that is by helping people invest their money for income, since it's a safer, more conservative way to get return.

The national initiative is my mission; through advertising and awareness campaigns, we are illustrating how the average consumer can set a goal for retirement and have an income specialist (who is also a fiduciary) help them set a solid plan all based on income, not hoping and praying for growth in the stock market.

I'M NO PERMABEAR, BUT . . .

I want to get one thing straight: I'm not a bull on the stock market. And I'm not what you'd call a "permabear" either.

There are some people who have been calling for another market crash since 2011, back when the most recent bull market was just getting its legs.

So while I'm no stock market cheerleader, I'm no "doomsayer," either.

What I am is a man in his 50s who understands, plain as day, that if I get hit by another 50 percent drop in the stock market, which is a historical certainty, as I'll prove in the subsequent chapters of this book, my financial life will never be the same.

More importantly, I'm a financial advisor who understands that very same truth applies to my clients.

If a drop of that magnitude occurs and we haven't taken the right precautions, the fact is you and I will likely not be able to enjoy the same lifestyle in retirement that we plan on enjoying today.

Let me put my life in some context for you.

To be clear, I have money. But I'm far from what you would consider "rich."

I grew up in the small town of Bristol, Connecticut.[11] Nowadays when everyone hears that, their first thought is ESPN because that's where their headquarters is. I grew up way before ESPN was established. Even today, it's still a small town of some 60,000 people, so you can imagine what it was like growing up there in the '60s and '70s.

My parents didn't come from money. They were hardworking, middle-class folks like I'm sure your parents were. My dad worked construction, and my mom did factory work. As their son, I decided it was my prerogative to create a better life for myself than my parents had so I could one day offer a better life to my children in turn. That's why I went into the financial industry. I wanted to learn how money worked. I wanted to learn how to make enough of it that I could work on my terms and someday retire, on my terms.

I've done very well for myself, but I'm by no means "rich." I don't own a huge yacht or some $10 million McMansion, but I do own two very nice waterfront homes, one in Florida and one in Old Saybrook, Connecticut, and I don't like to skimp on dinner. I've worked hard to enjoy the life I have and I plan to continue.

I sat down before I started writing this book, and I asked myself, "Dave, how much money do you *really* need to retire?" Now most people think $5 million sounds like a whole lot of money. Yet, if you withdraw the standard 4 percent per year, you are talking about a gross income of $200,000 per year. And, if I gross 200K before tax, it's going to net about 144K after taxes (assuming a 28 percent tax bracket). That's not too bad. But now, let's look at my expenses. My property taxes on both properties amount to about 50,000, my utilities are 24,000 a year, and my average Visa bill is about 5K a month. So, if you add those figures up: 50K on property taxes, 24K on utilities, and 60K on Visa, that's 134,000, leaving me only 10,000 for everything else, including medical insurance.

So the point is, I would be forced to change my lifestyle and either skimp on those dinners going forward or I would have to sell one of my homes. I would have to make adjustments even looking at a $5 million retirement.

Now to be clear, I may be overexaggerating certain line items such as property taxes and utilities; I like to be overprepared. But to have literally no spending money from a $5 million retirement shows you how serious this situation is. There is a gap here that might mean 4 percent might not be enough, it might force me to eat into that principal. At that rate, I'd run out of money after a couple of decades if the stock market doesn't keep going up, so I better hope and pray I don't age very well into my 70s and 80s. That's also assuming I don't face a major medical emergency that sets me back tens, if not hundreds of thousands of dollars in a single year, which, with the way medical costs are skyrocketing, seems entirely likely.

My point is, even if you have a $10 million nest egg, you really have to *plan* if you want to retire. You have to dot every *I* and cross every *T*. The reality is, most Americans won't have anywhere near that much when it comes time to retire. Most folks, who will actually be able to retire, may only have $250,000 or $500,000 in assets. Others might have $1 million or $2 million. Unfortunately, retiring will not be easy for any of them if, and this is a big if, they stick to the same strategies Wall Street has been shoving down their throats for years.

STOCKS WON'T BUY YOUR RETIREMENT

If you have your money in stocks, you know stocks are anything but consistent. One year they're flat. Another year they're up 20 percent. Another year they're down 50 percent. Every year seems to bring something different.

So let me ask you, do you want your retirement to be subject to the whims of the market's chaos? Are you prepared to make sacrifices on a year when the market's down? Will you have the discipline to take some of your cards off the table when the market's up?

If you don't want to have to work that hard and you want to save yourself the headache, you need to be prepared to do something different.

You see, there's another reason why the 4 percent rule (which is explained later in the book more fully) doesn't work. The 4 percent rule assumes that in order to retire, you need to have reached a lump sum. It assumes a specific dollar threshold you need to have met before you can stop punching the clock.

If the goal of retirement is to enjoy it, let me ask you this: Does the idea of withdrawing from a lump sum, hoping it will grow back and watching it disappear year after year, sound like fun to you?

Do you like the idea of starting with $1 million in assets and, partway through your retirement spending it down to $500,000, hoping that last half of a million will last you the rest of your years?

That kind of thinking doesn't appeal to me, nor does it to anyone else for that matter.

When I make money, I like to keep it. Chances are, so do you.

That's why retirement isn't about a lump sum. It's about income.

There's a reason we don't spend our savings in our younger years. It's because we want the money to be there later in case we really need it. So why do we think it's okay to spend our savings after we've retired?

Is it because we know we could be dead in a few years?

If so, isn't that kind of morbid?

I have an alternative solution.

If the goal of our working years is to build up a certain-sized portfolio of money, then the goal of our retirement years should be to never let it shrink.

You might wonder how that's possible. If the goal of retirement is to quit working, don't the funds for our expenses have to come from somewhere?

They do, but they don't have to come out of your principle, your lump sum, your nest egg, your net worth. They don't have to come out of stocks you sell year after year.

It can come solely from the income you generate from your investment.

THE ONLY THING THAT MATTERS

What I'm about to tell you might sound crazy; it doesn't matter how big your nest egg is.

The only time it will ever matter is when it comes time to have a bragging match with your neighbor about whose personal assets are bigger, and who cares?

Think about it like this.

If you budget your money, you don't think about the money you have sitting in savings, because the whole point about saving is not to touch it. Instead, you think about the money you have coming in the door each month. You think about your income. You think about the income you need to pay those bills. If we go through life knowing we're not supposed to spend our savings, why should that change at age 65 when we know we might have a solid 25 years left? That's why you can't afford to spend down the money you've worked so hard to save over the years. You need that money to stay around as long as possible so you can continue to collect income by investing that money in carefully selected fixed-income investments.

When you spend down your principle, your money only works for you once. But when you can collect *income* off it, it works for you year after year after year.

That's why the only thing that matters if you're at or near retirement age is NOT how much money you've accumulated, how many stocks you have, or anything like that. It's how much *income* you can generate off the wealth you've acquired.

In the following chapters of this book, I'm going to reveal, in precise detail, why income is the ONLY thing you need to concern yourself with at this stage if you are anywhere close to retirement.

I'm going to show you why the average financial advisor is not equipped to help you protect your life savings or safely invest your money. I'm also going to show you the steps you can take to find someone in your area who specializes in generating income for retirement and what you can do if there isn't someone near you.

I'll tell you why our economy hasn't been the same for the last 20 years and why it lends itself to the kind of 50 percent and 60 percent drops we've suffered.

Most importantly, I'll show you why another crash is not only likely, but a historical guarantee if one is looking at history as your primary guide.

Finally, I'll tell you about the work I'm doing to start a grassroots revolution that sweeps the financial landscape, bringing a Retirement Income Store to every American who realizes that, in the face of economic uncertainty, a conservative, income-based approach to investing is the only way to go forward.

I promise this won't be like every other financial planning book you've read that only offers platitudes and half-baked solutions. If I've done my job, this book will change your life, and for the better.

Strap in. It's going to be a wild ride.

CHAPTER 2

So What's the Big Deal About Income, Anyway?

If I were to ask you what the difference is between a 16-year-old and a 60-year-old, you might tell me, "Everything." To be sure, there's no one correct answer. The way I see it, the biggest difference that comes with age is the way we set our goals.

At 16, the sky is the limit. Our bodies are powerful, vibrant, and full of energy. We believe we will someday write the next great American novel, discover a cure for an incurable disease, or become an Olympic gold medalist.

Said another way, we're all over the place.

Before life teaches us its hard lessons, it's impossible to determine what is really the most important thing to us. When we're young, we have grandiose ideas of taking on the world and pursuing our passions. But we have no specifics. Early in life, our dreams are so amorphous and abstract because we don't know what we really want. As we age, our goals become more focused.

After decades of work, all we wish is to be able to fulfill purpose-based goals that are important to us, retire someday, make